The Administration's Anti-inflation Program of March 1980

ON March 14, the administration announced a new program designed to curb accelerating inflation. The program has five major parts:

- Reductions in Federal spending and achievement of a balanced budget in fiscal year 1981.
- Restraints on credit, especially consumer credit.
- Intensified and expanded pay and price monitoring.
- New measures to conserve energy, principally the imposition of a levy on imported oil.
- A renewed appeal to Congress for prompt approval of pending legislation designed to encourage productivity and saving.

Full information about the program was not available when the SURVEY went to press; the following paragraphs summarize the major features of the program.

Reduced spending and a balanced 1981 budget

The administration proposed to reduce Federal outlays (unified budget basis) $13–14 billion in fiscal 1981 and $2 billion in fiscal 1980. Information about the reductions is incomplete, but it is known that a reduction of $8.1 billion in 1981 is planned in programs such as general revenue sharing, welfare reform, and mass transit capital grants. Revenues are increased $3.4 billion in 1981 by proposed legislation, effective January 1, 1981, to withhold 15 percent of taxable interest and dividends. The levy on oil imports—effective March 15, 1980—adds about $3 billion in 1980 and $10 billion in 1981. The revised budget estimates also reflect upward revisions in outlays due to higher-than-expected inflation and interest rates as well as certain other factors; upward revisions in receipts also reflect higher inflation and stronger economic activity. Overall, a $10–13 billion unified budget surplus is expected in 1981, and a $36–37 billion deficit in 1980.

Credit restraint

The Federal Reserve Board (FRB) took several initiatives designed to limit credit growth. (1) Under a Special Credit Restraint Program, banks were asked to limit the increase in loans this year to the 6–9 percent range. (2) Certain consumer creditors, including issuers of credit cards and banks, are required to deposit 15 percent of their increase in "covered consumer credit" in non-interest bearing accounts held by Federal Reserve banks and certain other Federal financial agencies. "Covered consumer credit" excludes automobile credit, credit specifically used to finance the purchase of household goods such as furniture and appliances, home improvement loans, and mortgage credit. (3) A three-percentage point surcharge was added to the discount rate for large banks that borrow repeatedly at the discount window and the marginal reserve requirement on managed liabilities was raised from 8 to 10 percent. (4) Restraints were placed on the amount of credit raised by large nonmember banks and steps were taken to curb the expansion of assets of money market mutual funds.

The administration proposed reductions in Federal loans and loan guarantees amounting to $4 billion in fiscal 1981, and urged enactment of a "credit budget" to help control extension of Federal loans and loan guarantees.

Monitoring pay and price standards

The Council on Wage and Price Stability will intensify and expand its pay and price monitoring activity. A larger number of companies will be asked to report price change information and these reports will be reviewed more thoroughly. Voluntary pre-notification of price increases will be asked on a selective basis. The price guidelines issued last November, under which most companies were asked to hold price increases to the same rate as 1976–77, were confirmed.

The administration accepted the revised pay standards recommended by the Pay Advisory Committee. These standards permit pay increases ranging from 7.5 percent to 9.5 percent for the second year of the voluntary wage-price program. The previous ceiling had been 7 percent.

Energy conservation

The administration imposed a levy on imported oil, effective March 15, 1980. This "gasoline conservation fee" is $4.62 per barrel and is intended to be shifted entirely to gasoline. Imports of gasoline are also subject to the levy, which is expected to increase the retail price of gasoline about 10 cents per gallon, effective May 15. According to the administration, the direct effect of this increase will raise the Consumer Price Index (CPI) about one-half percentage point, largely by June. Indirect effects will be felt as the increased gasoline costs are passed on. Direct plus the indirect effects are expected to increase the CPI about three-fourths of a percentage point over the next year.

The oil import fee was imposed by administrative action. However, the administration intends to request legislation replacing the fee with a new tax on gasoline and diesel fuel, starting at 14 cents a gallon and automatically adjusted by changes in refiners' (sales) prices. The existing 4 cents a gallon tax on gasoline would be repealed.

State-by-state targets for gasoline consumption will be established. The overall target is 5½ percent below the average consumption in 1979. Although the State targets are expected to be achieved through voluntary compliance, the President has the authority to make the targets mandatory under legislation enacted in 1979.

Renewed appeal for legislation

The administration renewed its appeal to Congress to enact the Regulatory Reform Act and to speed passage of bills to cut regulation of banking, trucking, railroads, and communications. Passage is also urged of a financial institutions' reform bill that phases out existing ceilings that limit the interest return to small savers.